



Special Edition for . . .
PERS
Members

Montana Public Employee Retirement Administration (MPERA)

March 2002

Welcome to . . . **YOUR RETIREMENT PLAN CHOICE**

Defined Benefit or Defined Contribution?

Continuing Education Campaign

All active members of the Montana Public Employees' Retirement System (PERS) should have received the *Directions* newsletter and *Primer Tool Kit* in November. These two education tools initiated the MPERA education campaign to help you make an informed decision about your retirement plan.

If you did not receive either the newsletter or the tool kit, please contact the MPERA toll free, 877-275-7372 or in Helena, 444-3154.

Beginning July 1, 2002, active members of the PERS will make

a retirement plan choice. Members will choose whether to remain in the **Defined Benefit Retirement Plan** or transfer into the **Defined Contribution Retirement Plan**.

This newsletter provides information to help you make your retirement plan choice. We hope the education tools will be a valuable resource to you when making your retirement plan choice decision. We encourage you to utilize all of the MPERA education materials. Make your decision only after you review and use all the tools and understand each retirement plan.

Employee Video Bookpack

Don't miss out on another great tool in the retirement plan choice education campaign. The *Employee Video Bookpack* will be mailed to you in March.

First, watch the brief video for a quick overview of your retirement plan choice. The video will also discuss the retirement plans and some items to consider in making your decision. Then, read the companion booklet for a more detailed analysis and comparison of the defined benefit and defined contribution retirement plans.

Future Attractions: Upcoming Education Tools and Resources

Personal Comparison Statement (March 2002) This statement shows a side-by-side comparison of projected benefits under the two retirement plans using your personal data. Keep this statement handy. You will need it to use the modeling software and for phone consultations. Employees new to the PERS after December 31, 2001 will not receive a Personal Comparison Statement.

Modeling Software (April 2002) Visit the Web Site (www.MPERAchoice.com) and work online with the interactive modeling software to create scenarios and projections specific to your anticipated circumstances.

Workbook (April 2002) Full information in hard-copy format - an excellent reference tool.

Employee Workshops (April 2002) Beginning in April 2002, workshops will be held throughout the state. These workshops will allow for interactive learning and will tie all the previously provided education tools together. Dates, times, and locations of workshops will be posted on the Web Site (www.MPERAchoice.com) and with your agency payroll personnel. You may also call the toll free number, 800-227-0559, to request a copy of the schedule. (See page 5 for more information to sign up for a workshop.)



“The choice is yours . . . the time is now.”

Retirement Plan Comparison - Basic Differences

Plan Features and Benefits	Defined Benefit Retirement Plan (DBRP)	Defined Contribution Retirement Plan (DCRP)
Allocation of 6.9% Employer Contribution:	6.9% Goes Into the Pension Trust Fund	To Employee's Individual Account: 4.19% Other Allocations: Plan Choice Rate: 2.37% Education Fund: 0.04% Disability Plan Fund: <u>0.30%</u> 6.90%
Employee Contribution:	6.9% of Pay	6.9% of Pay
Benefit:	Guaranteed	Undetermined
Retirement Benefit Determined by:	Formula and Guaranteed Annual Benefit Adjustment (GABA)	Individual Account Balance
Employee-Directed Investments:	N/A	Employee Directs Among Selected Options
Investment Risk:	Employer Assumes Risk	Employee Assumes Risk
Benefit Adjustments:	3% Guaranteed Annual Benefit Adjustment (GABA)	Flexible Distributions may Counter Effects of Inflation
Retirement Eligibility:	Service and Early Retirement Based on Age and Years of Service	Account Available at: 1. Termination 2. Retirement 3. Death

Defined Contribution Retirement Plan



Can you define that?

As you learned from earlier education tools, a defined contribution retirement plan is a type of retirement plan that's based on how much is **contributed to** the plan. It is unlike a defined benefit retirement plan, because it does not specify a benefit.

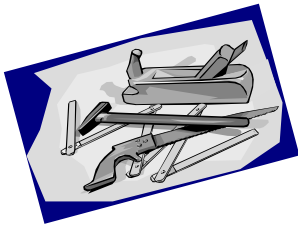
So, in a defined contribution retirement plan, you contribute a defined amount of your income, then you choose from and invest in selected options offered within the plan. With the freedom to invest also comes a responsibility. If you choose the defined contribution retirement plan, you'll be more actively involved in the investment and management of your retirement funds. As a result, you may need to know more about investments. The article on page three may help you get started.

Investment Basics

1 Generally, investments fall into three broad classes:

**Money Market
Fixed Income
Equity**

Each type of investment is designed to accomplish a specific task. Think of a tool box. If you have only hammers, the tool box would be of limited usefulness. You need *different* tools to accomplish different tasks.



Money Market

Money market investments are short-term, safe, highly liquid investments intended for purposes such as emergencies, opportunities, quick access and other short-term needs. Money markets may be a useful tool between investments, or as a way to ride out a market storm.

Fixed Income

Fixed income investments are meant to generate a relatively high degree of current income. Usually, people in retirement are most concerned with income. So, the fixed income investments may be quite suitable during retirement.

Equity

Equity investments represent ownership, giving investors an opportunity for long-term growth of capital as well as income. But, with rewards that are typically superior to other investment classes come the risks of short-term volatility.

2 Like tools in the tool box, you probably want some of each of the three classes of investments, although in different proportions depending on your need for:

**Income
Safety of Principal
Liquidity
Growth**

Someone in retirement may be most interested in current income, some liquidity, and safety of principal. Others may have a much longer **time horizon**, and can afford short-term volatility (market risk) in the expectation that long-term appreciation (growth) of capital will reward them handsomely.

Worried about the markets? In the last couple of years, market turmoil and volatility have been aggravated by recession and terrorist attacks. You might also have observed over time how resilient and strong our markets really are.

3 Here's the key concept. The investments you choose depend on your:

**Time Horizon
Tolerance for Risk
Goals and Objectives
Specific Needs**

In other words, put it in perspective. If you need access to your money in the short-term, money market funds may be appropriate. If you need current income from your investments, fixed income investments may fit the bill. If you need long-term growth, equity tools should be in your box.

Finally, know your objectives, know your needs, and plan your investment strategy.

Remember . . .

Defined contribution retirement plans specify the amount that goes into the retirement account, not the benefit received at retirement. The retirement account will grow over time depending on:

- **The amount contributed,**
- **How long the money remains invested, and**
- **The rate of return earned over that time period.**

Q & A

Frequently Asked Questions

We hope the education campaign tools and resources are answering your questions regarding your retirement plan choice. Following are a few of the more frequently asked questions we have received. For a more complete list of questions and answers refer to the booklet titled, *Retirement Plan Choice Opportunity*, in your Primer Tool Kit or go to the Web Site.

Q How long will I have to make a decision?

(1) **Active members** as of June 30, 2002, will have a decision window from July 1, 2002 through June 30, 2003, a full twelve months.

2) **Newly hired** employees (hired July 1, 2002, and later) must make their decision within twelve months from their date of hire, as reported to the MPERA by their employer.

(3) **Inactive members** who return to work in a PERS-covered position, will have twelve months from their date of re-employment, as reported to the MPERA by their employer.

Once the decision is made, it is **irrevocable**. This means you cannot change the choice you make once the election form is filed with the MPERA. Therefore, it is critical for members to carefully consider all the factors involved.

Q How do I make my retirement plan choice?

A All active members will receive a *Retirement Plan Choice - Irrevocable Election* form in April. All members must complete this form, within their applicable twelve-month window, by electing to remain in the Defined Benefit Retirement Plan (DBRP) or to transfer to the Defined Contribution Retirement Plan (DCRP). After you complete the election form, you must send it to the MPERA. A copy of the election form and confirmation will be returned to you for your records. If you transfer to the DCRP, you will also be notified of the effective date of your election and your investment options.

Q Is it possible to be in both plans?

A No, you must choose either the Defined Benefit Retirement Plan or the Defined Contribution Retirement Plan. You may not participate in both plans at the same time.

Q If I elect to transfer to the Defined Contribution Retirement Plan, how much is transferred?

A The following contributions will transfer:

- your regular employee contributions - plus 8% compounded

annual interest, and

- a portion of the employer contributions, based on your years of service - plus 8% compounded annual interest.

Q What investment options are available under the Defined Contribution Retirement Plan?

A The Public Employees' Retirement Board (PERB) has the responsibility of selecting a full range of investment choices, and monitoring their investment performance. Defined Contribution Retirement Plan participants will have a number of investment choices which cover all asset classes and categories - from conservative to moderate to aggressive - and may select one or more in combination to suit their needs and risk tolerance. Information will be available in other education materials and from the Defined Contribution Retirement Plan's record keeper, Great West Life & Annuity Insurance Company.

Once your decision is made, it is irrevocable. This means you cannot change your choice once the election form is filed with the MPERA.

Important considerations if you choose the Defined Contribution Retirement Plan

Family Law Order (FLO) You must amend your FLO.

A Family Law Order (FLO) may transfer all or a portion of a member's benefit rights in the PERS to an alternate payee. Any PERS FLOs already approved by the Public Employees' Retirement Board must be amended and reapproved before a member can transfer to the Defined Contribution Retirement Plan.

Amending a FLO can take several months, so begin the process early if you plan to transfer to the Defined Contribution Retirement Plan. Contact the MPERA for additional information.

Purchase of Service Completing a contract:

If you are currently purchasing service, you still have the same choice of the Defined Benefit Retirement Plan or the Defined Contribution Retirement Plan.

You must satisfy the terms of the purchase contract prior to elect-

ing the Defined Contribution Retirement Plan. You can complete the purchase with a lump-sum payment or, you can agree to prorate the amount of service purchased.

Initiating a contract:

It may be advantageous to purchase service prior to transferring to the Defined Contribution Retirement Plan, because you may be entitled to a larger transfer amount. Contact the MPERA for assistance.

You have a 12-month window to make your retirement plan election and finalize your purchase. If you do not complete your purchase, you will receive proportional service credit.

University System Employees - Additional decision:

Employees of the Montana University System who are **active** members have an additional decision to make. The **first** decision Montana University System employees must

make is which *type* of retirement plan is best for their personal circumstances.

If a Montana University System employee decides a defined contribution retirement plan is best, he or she will then have a **second** decision to make. They may choose between the PERS Defined Contribution Retirement Plan or the Montana University System Optional Retirement Program (ORP). The ORP is currently administered by TIAA-CREF.

Education tools sent to University System employees will contain additional information about the ORP. Information may also be obtained from the campus benefit representative.

Is your address current?

If your personal mailing address was incorrect on this newsletter or if it changes, immediately inform your payroll clerk of your new address. This will ensure that you receive all of the education tools.

Sign up for an employee workshop in your area . . .

Plan to sign up for one of the employee workshops in your area. The scheduling process is underway to ensure workshops are scheduled to conveniently accommodate attendance by all PERS employees throughout the state. Workshops will be repeated at most locations several times throughout the year. These workshops will last about 90 minutes and will be an excellent source of information to assist you in making your Retirement Plan Choice!

When a workshop has been confirmed, it will be posted on the website at: **www.MPERAchoice.com**. In addition, your agency will receive a poster and "sign-up" form. You can sign up at the workplace or call the contact person listed on the web site. Continue to check the web site, or call 1-800-227-0559 for updated information on workshops as they are scheduled and confirmed for your area.

Note: Some of the workshops will be for Montana University System employees only.

Need information? Contact us at . . .

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Web Site for the Defined Benefit and Defined Contribution Retirement Plan Choice:
<http://www.MPERAchoice.com>

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*Should any information in this
newsletter conflict with statute or
rules, the statute or rules will
apply.*

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